REDACTED DIRECT TESTIMONY

OF

JOY NICDAO-CUYUGAN

DIRECTOR

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION
ON ITS OWN MOTION
-VS-
COMMONWEALTH EDISON COMPANY

DOCKET NO. 99-0282/99-0273 CONSOLIDATED

JUNE 1999

Q. Please state your name and business address.

A. My name is Joy Nicdao-Cuyugan. My business address is 527 East Capitol Avenue, P.O. Box 19280, Springfield, IL 62794-9280.

Q. What is your current position with the Illinois Commerce Commission ("Commission")?

A. I am presently the Director of the Finance Department of the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In April of 1987, I received a Bachelor of Science degree in Business Management and a Bachelor of Arts degree in Psychology from De La Salle University. In May of 1991, I received a Master of Business Administration degree, with a concentration in Finance, from the University of Illinois at Springfield. I was employed by the Illinois Commerce Commission in July 1991 as a Financial Analyst and was promoted to Senior Financial Analyst in May 1994. In April 1998, I became the Director of the Finance Department. I have previously testified before the Commission on rate of return and other regulatory finance issues.

Q. Please state the purpose of your testimony in this proceeding.

A. On May 13, 1999, Commonwealth Edison Company ("ComEd" or "Company") filed notice with the Commission of its intent to sell to Edison Mission Energy ("Mission") specified electric generating plants. On May 18, 1999, this proceeding was initiated by the Commission to determine whether the proposed sale of the specified electric generating plants should be prohibited. One of the issues before the Commission under Section 16-111(g)(4)(vi) of the Illinois Public Utilities Act ("Act") (220 ILCS 5/16-111(g)(4)(vi)) is whether there is a strong likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in its base rates during the mandatory transition period pursuant to Section 16-111(d) of the Act. The purpose of my testimony is to present my evaluation of the Company's projected earned rates of return on common equity ("ROEs"). I will address the likelihood that consummation of the proposed transaction will result in the Company being entitled to request an increase in base rates during the mandatory transition period pursuant to the Act.

Q. Please summarize your findings.

A. In ComEd Exhibit 2.1, the Company provided projected two-year average ROEs, as required by Section 16-111(g)(4)(vi) of the Act. The calculations were made in accordance with Section 16-111(d) of the Act, for each year from the date of the notice through December 31, 2004, both with and without the proposed transaction. Review of the projected ROEs indicates there is not a strong likelihood that consummation of the proposed transaction will result in the electric utility being entitled to request an increase in base rates during the mandatory transition period pursuant to Section 16-111(d).

Q. What are the Company's projected ROEs?

A. As shown in ComEd Exhibit 2.1, for the period December 31, 1999 through December 31, 2004, the Company's projected two-year average ROEs are between % and %, giving effect to the proposed sale. Were the proposed sale not to occur, the projected two-year average ROEs are between % and %.

Q. How were the Company's projected ROEs calculated?

A. The Company calculated its projected two-year average ROEs for the period December 31, 1999 through December 31, 2004 using amounts derived from projected financial statements giving effect to the proposed sale and without the proposed sale. ROEs were calculated by dividing the 2-year average of Net Income Applicable to Common Stock by the average of the beginning and ending balances of Common Equity for the same period. Amounts used in the Company's calculations were adjusted to remove the after-tax impact of accelerated depreciation and amortization expected to be recorded during each of the relevant years.

Q. Do the Company's projected ROEs indicate a strong likelihood that consummation of the proposed transaction would result in the Company being entitled to request an increase in base rates?

A. No, they do not. Under Section 16-111(d), if the Company's two-year average earned ROE is below the two-year average of the monthly average yields of 30-year U. S. Treasury bonds for the same two-year period, then the Company may request an increase in its base rates. Under Section 16-111(g), two-year average projected ROEs are required to determine the likelihood that the Company would be entitled to request an increase in base rates. As shown in ComEd Exhibit 2.1, the Company's two-year average projected ROEs from December 31, 1999 through December 31, 2004 are much higher than the forecasted two-year average yields for 30-year U.S. Treasury bonds in the same two-year period. In addition, the historical yield on 30-year U.S. Treasury bonds for the period 1926 to 1997 was 5.6%, the current spot yield for 30-year U.S. Treasury bonds is 5.84% and the current two-year average for 30-year U.S. Treasury bonds is 5.85%.[1] The Company's two-year average projected ROEs are also higher than these yields.

Q. What is your conclusion?

[1] *Stocks, Bonds, Bills, and Inflation 1998 Yearbook,* Ibbotson Associates; *Federal Reserve*

A. Based upon my evaluation, there is not a strong likelihood that consummation of the proposed transaction will result in the electric utility being entitled to request an increase in its base rates during the mandatory transition period pursuant to Section 16-111(d) of the Act.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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